

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 EURE-00 SSO-00 NSCE-00 INRE-00
USIE-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
L-03 H-02 PA-02 PRS-01 /094 W
-----041510Z 052774 /40

O R 041343Z APR 77
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC IMMEDIATE 0231
INFO US MISSION OECD PARIS UNN
AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BELGRADE
AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY REYKJAVIK
US MISSION EC BRUSSELS UNN
AMEMBASSY LUXEMBOURG
AMEMBASSY MADRID
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMEMBASSY VIENNA

UNCLAS STOCKHOLM 1455

E.O. 11652: N/A
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TAGS: EFIN, SW
SUBJ: SWEDEN DEVALUES, ANNOUNCES RANGE OTHER MEASURES TO COPE
WITH ITS ECONOMIC DIFFICULTIES

1. SWEDISH GOVERNMENT, IN ABETTING ITS DEVALUATION OF SIX PERCENT
AGAINST THE DMARK, ANNOUNCED TO DAY MEASURES TO IMPROVE SWEDEN'S
CURRENT ACCOUNT DEFICIT AND LIMIT BURGEONING INFLATIONARY

PRESURES BY DAMPENING DEMAND IN BOTH PUBLIC AND PRIVATE SECTOR. ACTION WAS TAKEN, ACCORDING TO A GOVERNMENT STATEMENT, AFTER TRADE DEFICIT IN DECEMBER THROUGH FEBRUARY PERIOD REACHED TOTAL OF SKR 2.2 BILLION, VERSUS PREDICTED TOTAL DEFICIT OF 3.6 BILLION FOR ALL OF 1977. MEASURES ANNOUNCED ARE ALSO ACCOMPANIED BY EXISTING SECTORAL AND SPECIFIC EMPLOYMENT MEASURES TALLING SKR 12 BILLION FOR THE PERIOD BETWEEN NOW AND JULY 1, 1978. A FURTHER SKR 2 BILLION IS AVAILABLE IN CREDIT GUARANTEES AND LOAN WRITE-OFFS.

2. GOVERNMENT FURTHER SAID: "SWEDEN CANNOT CONTINUE TO LIVE OVER ITS MEANS (INCOME) AND TO BUILD IT STANDARD OF LIVING BY BORROWING ABROAD...PRIVATE AND PUBLIC CONSUMPTION TOGETHER ROSE BY AROUND SEVEN PERCENT (BETWEEN 1976 AND 1974) WHILE TOTAL RESOURCES GREW BY ONLY 1.5 PERCENT (GDP)." WEAK DEMAND ABROAD AND STRONG DOMESTIC DEMAND LED TO INCREASING CURRENT ACCOUNTS DEFICITS WHICH THE GOVERNMENT ESTIMATED WOULD REACH AROUND 13 BILLION KRONOR FOR 1977. PERHAPS MOST IMPORTANT FOR SWEDEN, THE GOVERNMENT ESTIMATED THAT INCREASED COSTS OF PRODUCTION WOULD LIMIT SWEDISH EXPORT GROWTH TO FOUR PERCENT IN 1977, AS OPPOSED TO TOTAL MARKET GROWTH OF EIGHT PERCENT FOR OECD COUNTRIES. SWEDISH EXPORT ORDER BOOKS HAVE ALREADY BEGUN TO SHOW SOME IMPROVEMENT, BUT THE GOVERNMENT THOUGHT IT ESPECIALLY IMPORTANT TO ACT NOW BECAUSE THE LAGS BEFORE POLICY HAS EFFECT ARE LARGE, AND BECAUSE DEMAND ABROAD IS EXPECTED TO BEGIN EXPANDING RAPIDLY NEAR THE END OF 1977. SWEDEN CANNOT AFFORD TO MISS THE UPSWING IN THE INTERNATIONAL BUSINESS CYCLE.

3. THE GOVERNMENT ALSO THOUGHT IT NECESSARY TO TAKE THESE
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ACTIONS NOW SO THAT THE TWO SIDES IN THE CURRENT COUNTRY-WIDE LABOR NEGOTIATIONS (NOW IN MEDIATION) WOULD BE FULLY AWARE OF THE GOVERNMENT'S PLANS.

4. FOLLOWING IS A SUMMARY LIST OF THE MEASURES ANNOUNCED BY THE GOVERNMENT APRIL 4:

A. THE KRONA WAS DEVALUED BY SIX PERCENT AGAINST THE DMARK, AS OF APRIL 4. A TOTAL TRADE WEIGHTED DEVALUATION OF 4.6 PERCENT (INCLUDING, THE DANISH AND NORWEGIAN DEVALUATIONS OF THREE PERCENT).

B. THE VALUE ADDED TAX WILL INCREASE FROM 15 PERCENT TO 17 ON JUNE 1; TOTAL FINAL TAX BILL ON ITEMS PURCHASED WILL BE 20.63 PERCENT VERSUS OLD RATE OF 17.65.

C. PENSIONERS WILL AUTOMATICALLY RECEIVE COMPENSATION VIA INDEXATION AND CHILD SUBSIDIES WILL BE INCREASED BY SKR 300 PER YEAR, BEGINNING JULY 1, AS OPPOSED TO EARLIER PLAN TO

INCREASE AS OF JANUARY 1, 1978.

D. PRICES WILL BE FROZEN AT LEVEL OF MARCH 31; FREEZE WILL BE IN EFFECT UNTIL MAY 31, AT WHICH TIME "SURVEILLANCE" MAY REPLACE FREEZE; IMPORTERS WILL BE ALLOWED TO RAISE PRICES IMMEDIATELY TO OFFSET DEVALUATION.

E. THE GOVERNMENT WILL ENDEAVOR TO HOLD DIVIDENDS AT THE 1977 LEVEL; FIRMS SHOULD USE IMPROVEMENT IN THEIR FINANCIAL POSITION TO INCREASE INVESTMENT, LIQUIDITY AND RESEARCH EXPENDITURES. MEASURES WILL BE TAKEN TO SKIM OFF ANY WINDFALL PROFITS AND TO INSURE THAT DEVALUATION IS PASSED ON IN LOWERED EXPORT PRICES.

F. INVESTMENT IN "NON-PRIORITY" AREAS -- GAS STATIONS, PARKING LOTS, RETAIL STORES, OFFICE BUILDINGS, BANK BRANCH OUTLETS, SPORT FACILITIES AND LARGE VACATION COTTAGES--WILL BE TAXED AT 15 PERCENT; TAX WILL APPLY TO CONSTRUCTION BEGUN BETWEEN UNCLASSIFIED

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MAY 15, 1977 AND JULY 1, 1978, CONSTRUCTION IN DEPRESSED REGIONS WILL BE EXEMPTED.

G. A VARIETY OF GOVERNMENT CONSTRUCTION PLANS--INCLUDING PARLIAMENT AND CHANCELLERY BUILDINGS--WILL BE POSTPONED AND A GENERAL REVIEW OF GOVERNMENT FEES WILL BE UNDERTAKEN.

H. GOVERNMENT WILL MEET WITH LOCAL AND COUNTY GOVERNMENTS ON APRIL 27 IN EFFORT TO LIMIT OVERALL PUBLIC SECTOR SPENDING.

5. ALL MEASURES SAVE A, D AND H MUST BE PASSED BY PARLIAMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CURRENCY CONTROLS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STOCKH01455
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770116-0850
Format: TEL
From: STOCKHOLM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770489/aaaadaag.tel
Line Count: 153
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 885779aa-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2900634
Secure: OPEN
Status: NATIVE
Subject: SWEDEN DEVALUES, ANNOUNCES RANGE OTHER MEASURES TO COPE WITH ITS ECONOMIC DIFFICULTIES
TAGS: EFIN, SW
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/885779aa-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009